RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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April 27, 1994 **LETTER 1146**

RUSSELL'S LONG-TERM PREDICTIONS: I've been pondering this entire situation for many months, and here's what I believe the bear has in mind. Before he's through, the bear is going to get everybody out of stocks and bonds and out of anything and everything negotiable -- and back into dollars. Then he's going to kill the dollar.

What we're seeing now, in my opinion, is the very early stage of an absolutely massive movement back into cash (you might call it the beginning of a panic for liquidity). Once everyone has salvaged what they can and is back in dollars, we're going to experience an international dollar crisis. At that time people will turn to the only money that can't go bankrupt -- gold.

NEWS FOLLOWS THE TREND: That's the old Wall Street adage. The US, the world's only remaining "super-power," has resigned as world leader. The proof -- Haiti and Bosnia. The US, lacking leadership, is hiding behind an impotent, wimpy United Nations. Relax -- it's all part of the bear market syndrome -- nobody should be surprised.

TECHNICALS: My Primary Trend Index (chart on page 2) becomes very important here for tracing the true underlying trend of the market. The PTI is a composite of eight critical "action-of-the-market" indicators. For this reason, it's virtually impossible for the market to make downside progress while the PTI is in a rising trend. By the same token, when the PTI is in a declining trend it's almost impossible for the market to make any real upside progress.

The April 4 bear market lows were **3593.35** for the D-J Industrials, **1606.94** for the Transports. On April 18 the Transports broke below their 1606.94 low and continued down. However, Industrials refused to confirm. On April 20 the Utilities (which had led on the way down) rallied four points, suggesting that an oversold market was tired of declining and was probably ready for some upside action (for latest comments see Late Notes on page 6).

TRANSPORTS: The Transportation Average (along with Utilities) has been leading the Dow and the market on the downside. Why the Transports? First, the transportation stocks tend to be highly leveraged, and leverage in a bear market is a definite negative. Second, the Transports are extremely sensitive to forthcoming trends in the movement of goods -- and, by implication, to sales. The first person to sense an impending economic slowdown is the salesman, the guy (or gal) who's out there on the firing line. If a manufacturer's sales are in the process of slowing down, the next step is a factory slowdown. Thus the Transports are highly sensitive (probably more sensitive than Industrials) to forthcoming business trends.

ARGUMENTS: The arguments have started. Is it really a primary bear market? Or is it just a correction? Does Richard Russell know what he's talking about? Is Russell just a "Chicken Little" scaring us with tales of the sky about to fall down?

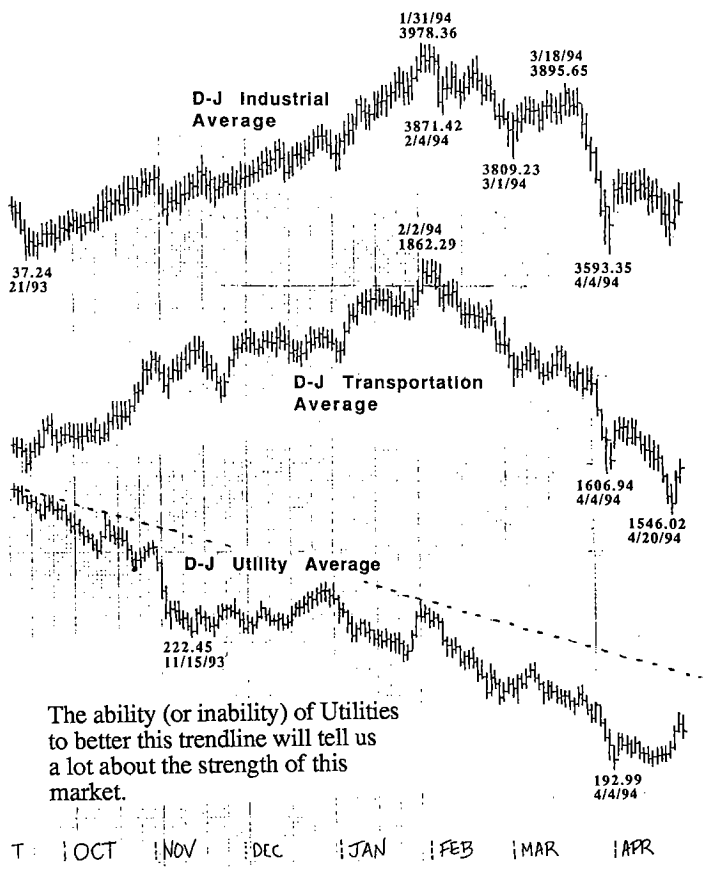
I probably receive 75 different stock market advisories and publications, and I can tell you that every variety of opinion is offered. "Dow 4200 by year's end, Dow 2600 by June, Dow 3100 by late fall." You name it; each analyst has an opinion, and most of the opinions are surprisingly specific. The fact -- in all honesty, nobody really knows.

Apr. 15 DJIA 3661.47; PTI 4034; A-D Ratio -5.49
Apr. 22 DJIA 3648.68; PTI 4022; A-D Ratio -5.90
Dow Yield: 2.79%; Dow Price/Earnings: 24.7
Dow 200-day MA: 3710; Dow 30-day MA: 3762
Dow Times Book Value: 3.18; PTI 89-day MA: 4051
Percentage of Undervalued Blue-chips: 11%
Dow Low Risk Buy Index: +135; Gold-PTI: 918
Gold 40-week MA: 378

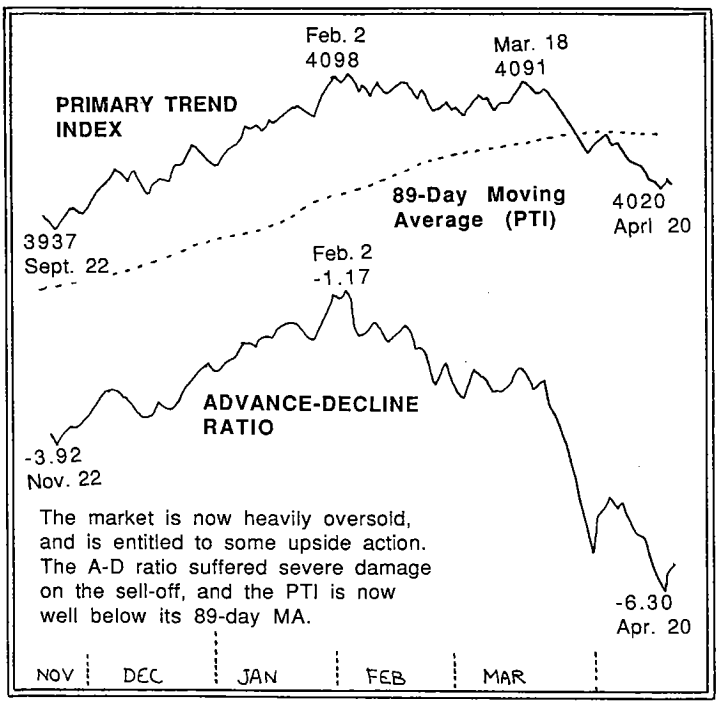
Americans are basically optimists, and they've always fondly believed that each new generation will do better than the last. And why not? Hasn't that been the history of the United States since its inception? Don't we refer to our nation as "America the Beautiful"? Don't we believe in the "cult of equities"? Haven't we grown up with the expression, "Never sell America short"?

Thus, the idea of a bear market, especially a long-lived, drastic bear market is difficult, almost impossible, for many to accept. And, let's face it, the odds are always against the arrival of a big bear market. Big bear markets are rare. And the fact is that most of today's brokers and stockholders have never seen a primary bear market.

Here's a concept that I want my subscribers to understand. All stockholders are bulls in that they are holding stocks. I don't care what their opinions of the market are; if they hold stocks they are bulls. At present we have the greatest number of stockholders, the greatest number of mutual funds, the greatest sheer amount of equities in the hands of individuals and institutions in history. All this stock must be stacked on the bull side of the ledger. In the face of this -- the primary trend has turned bearish. Think about it.



The ability (or inability) of Utilities to better this trendline will tell us a lot about the strength of this market.



Next, a little history. There have only been five previous major, long-lived bull markets in this century. Each was followed by a costly and extended bear market. The first bull market ran from 1921 to 1929. It was massive, highly speculative, and historic in its intensity. The great bull market was followed by a severe bear market that ended in 1932, at which point the Dow sold down to a low of 8.9 times Dow dividends (not earnings, I said dividends). On July 8, 1932, the Dow sold at a shocking low of 41.22.

The second big bull market ran from the 1932 lows to an April 1937 high. This was followed by an extended and tortuous bear market, one which ended at the World War II lows of 1942. At that time, the Dow sold at a value of 92.92 and at 14.5 times its dividends.

The third great bull market ran from the depressed lows of 1942 to a peak in May 1946. This was followed by a deceptive bear market that recorded its final low of Dow 161.60 in July 1949. At the '49 low the Dow sold at 12.6 times dividends.

The fourth mighty bull market ran from the 1949 recession low to a high in 1966. The ensuing bear market was again extended and deceptive. It ended in 1974 (Dow 577.60) with the Dow selling at 15.3 times dividends.

The fifth mighty bull market began in 1974 and ended in January 1994. Dividends on the Dow are currently listed (*Barron's* figures) at **$102.20.** If the ensuing (current) bear market was to decline to the level where the Dow sold at 1932 price/dividend levels -- well, we don't even want to think about that.

The 1932 bear market was so drastic that let's just eliminate it from our calculations. If we take the average of the price/dividend ratios seen at the '42, '49 and '74 bear market bottoms we get a figure of **14.1.** For the sake of argument, let's say that the current bear market will take the Dow price/dividend ratio down to the average -- to 14.1. If dividends hold at the current $102.20, then at 14.1 times Dow dividends of $102.20 we get a figure of **1440.** Impossible for the Dow to sell again at 14.1 times dividends? On the basis of past history, it's certainly not impossible. At any rate, 1440 for the Dow is a benchmark worth keeping in mind. A final thought -- during an extended bear market dividends invariably are cut.

If, for the sake of argument, this bear market ends at 1440 the Dow will have lost roughly two-thirds of its peak value. Considering the level of US debt today (total debt $15.3 trillion) that would be a major catastrophe. The results would impact on every area of American life. Under such conditions, I do believe that gold would be the ultimate island of safety and the means of survival.

THE PICTURE: Nobody knows what path the bear market will take. It could be a slow unwinding of the stock market and the economy, accompanied by furious pumping by the Fed. It could be an unexpected "consumer strike" with the public quickly accepting the fact that "it's a bear market" and halting their buying. It could be a gathering liquidity crisis, with a frantic demand for cash to stave off impending bankruptcies. Or it could be an erratic and extended series of mini-bull and bear markets (as per 1937-42 or 1966-74) with the real wrath of the bear coming towards the end.

Just as a few years ago the nation's analysts and economists were fixed on the money supply, they are now totally focused on the inflation rate. If inflation is higher the Fed will do this -- if it's lower the Fed will do that. Inflation is the current bug-a-boo of Wall Street, and as a result, I would guess that in coming months the inflation rate will have little or no effect on the stock market, the bond market or the economy.

I have two bear market axioms that I have emphasized over the years. I've included them in these Letters many times before, but I want to bring them to your attention once again. Here they are:

(1) In a primary bear market, the one who loses the least is the winner.

(2) In a primary bear market, values erode through time.

Number one may sound cynical, but I've lived through a number of bear markets, and I can attest to the validity of this axiom. I'm not saying that if you hold stock X, that specific stock can't advance in a bear market. Stock X may be that marvelous exception that is immune to the bear. However, for every stock X that you hold during a bear market, there will be ten other stocks that will be heading down.

But aside from stocks, your other holdings will be declining in value -- your house, your collectibles, your art, your real estate. In other words, in a bear market you must (unfortunately) accept losses. Therefore, a certain amount of loss should not depress you. The idea in a bear market is to lose as little as possible. Depressing? I guess so, but that's life, or at least that's life when the bear's in control. Be mentally ready for it.

As for thesis number two -- values eroding in a primary bear market -- that's simply a corollary to the first axiom. Just as values (taken across the board) will advance during a bull market, values in general will deteriorate when the primary trend is down. That concept must be accepted, or it will be thrust upon you in the most painful way.

The question might then be asked, "If values deteriorate during a bear market, what do they deteriorate against?"

The correct answer over the years has been that values in a bear market deteriorate against cash -- and if you live in the US the cash you're talking about is the dollar. The next question is -- "Is anything different about this bear market?"

Something new has been added to this bear market. The new addition is debt, mountains of debt, carloads of debt, oceans of debt. What happens, we must ask, if the debt meltdown comes? What happens if consumers become badly frightened and cut back on their purchases? What happens if business slows down and corporate profits plunge? One thing that will happen is that tax receipts to the government will fall off.

If tax receipts collapse, federal deficits will skyrocket, since tax receipts will drop off a lot faster than any cuts in government spending (actually, during a recession-depression the government will almost surely move to spend more, not less).

If deficits rocket skyward, there could be a run on the dollar, in which case both stocks and bonds would be jettisoned in favor of what -- gold, Swiss francs, yen? Or, if the government decides to defend the dollar, they will have to do it with much higher interest rates. Either way, financial chaos would reign. It's not a pleasant thought, and I don't have the perfect prescription for protection as this bear market progresses, but let's take one thing at a time. For now, it's early in the bear market.

INVESTMENT POSITION: The bear is in the box. As you can see, he's on the chubby side. That's because he's been sleeping for a long time, but be forewarned -- bruin is shaking off his lethargy, and he's ready to get active.

A perusal of any chart book will tell you that many stocks have been hit and hit hard. In fact, a good many stocks have already lost from one-third to half and more of their value. And the bear market is only four months old.

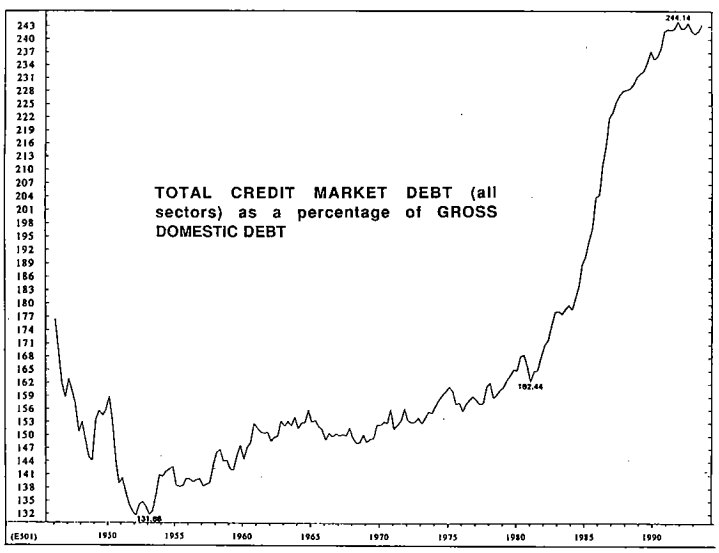
Bonds have taken a big hit, with most having already lost two or three years of interest. I think it will get worse.

What to do? As subscribers must know by now, I advocate following correct procedure. In a bear market correct procedure means "get out and get liquid." I note in reading many dozens of other advisories that the standard advice regarding what's happening runs about like this: "Cut back to 70% or 60% equities and 30% or 40% in bonds." That's hardly what I have in mind. When I say "get out and get liquid" I mean get out 100% and into cash 100% (this does not include the gold spectrum, which is somewhat optional). Everybody and his brother now owns mutual funds or stocks and bonds -- nobody's got cash, nobody's without debts. As such, they're perfect victims for the bear. I don't want victims for subscribers. I want to get my subscribers through this bear market with as few losses as humanly possible (and don't kid yourself, you will sustain some losses).

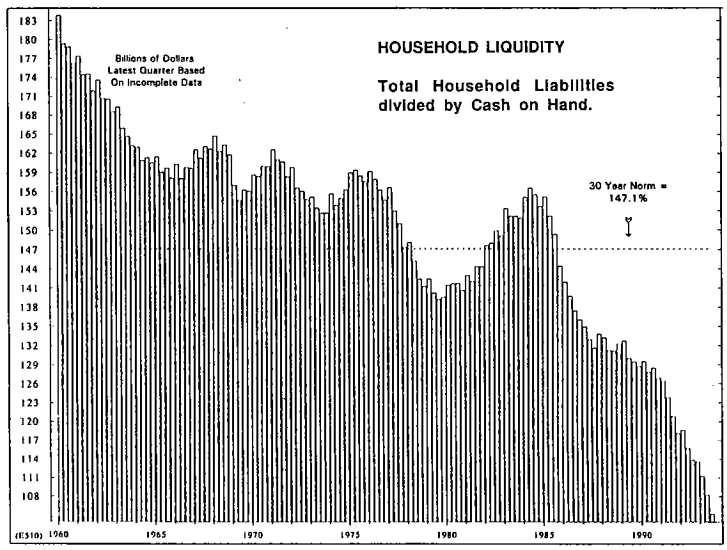
As for gold shares, this has been a tough few months, and I'll go into this in the gold section.

DEBT: I've received a number of letters from subscribers (and even from Congressmen) questioning my statement that the US must "inflate or die." They ask, "Russell, why do you adhere to this gloomy forecast?'

Answer: I'm not saying that the US (at least, theoretically) wouldn't love to get rid of its debt. I'm saying that this nation is so laden with debt that to get rid of the debt or even pare it down substantially would trigger a major depression.



The story is in the charts (and the charts are courtesy of *Ned Davis Research*). The first chart shows total Credit Market Debt as a percentage of the Gross Domestic Product (GDP). As you can see, this ratio exploded during the 1980s and early '90s. The clear implication is that the great boom of the '80s (in both the stock market and the economy) was a product of wildly expanding debt (credit). Without the gigantic build-up of debt, we never would have had those "great times" of the Reagan-Bush '80s. But just in case you didn't like those great times, I can report that I believe they're ending, courtesy of the tax boosts and regulations of the Clinton reign, plus, of course, the bear market.



What will happen if or when the US economy finally turns down in earnest? A massive squeeze will develop, since the debt will remain, even while GDP declines. Towering debt during a business contraction is the formula for a hair-curling bear market. Furthermore, if the economy turns down, tax receipts to the government will slump, and this in turn will send the federal deficit off into space. Exploding deficits will impact on the dollar, sending it to new record lows (while triggering a major rise in gold).

The second chart provides insight into the finances of Mr. and Mrs. America. This chart shows Household Liquidity, which is simply cash on hand as a percentage of total household liabilities. The chart indicates that the current ratio is roughly zero. This means that the consumer is literally loaned up -- and up to his eyeballs in debt. The implications here are that if the nation goes into a severe recession, the consumer is in the worst possible shape to withstand adversity.

How about savings? When the going gets rough, there's nothing like having savings. Here are the savings rates for various nations: Japan savings rate -- 17%; Germany -- 12.8%; France -- 12.4%; U.K. -- 10.5%; Canada -- 11.9%; and the US a lowly 4.0%.

Conclusion: When hard times come, if you're solvent and liquid you simply cut down on your living expenses, shut the storm door, say your prayers and wait it out. But if you're loaded with debt (and this applies to business as well as individuals), you've got a problem. The problem? The cost of servicing your debt eats you alive, and all the while your income, which you need in order to service your debt, is declining. Result -- bankruptcy.

NOTES & QUOTES: In manipulating interest rates down to multi-year lows, the Fed painted itself into a corner. Interest rates were pushed to ridiculous lows, consequently, there was only one direction for rates to go -- up. With the public and the institutions literally up to their eyeballs in bonds, the three recent boosts in the Fed funds rate acted as a razor-slash across the throat of the bond market. Now, with a bear market in force and the economy fated to turn down (a slumping economy would be a huge surprise), I wonder what the Fed will do? Will they admit they messed up and reverse their rate stance? Will they just sit tight? Will Greenspan go up in smoke? We'll see.

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The growing distrust between Japan and the US is coming at a bad time for the US. Seasoned observers say that the bickering is hastening Japan's tilt towards mainland Asia. Japan is now giving the West second consideration -- Japan's goal is trade with the expanding populations and economies of Asia, particularly China. In a new book by James Abegglen, "Sea Change -- Pacific Asia as the New World Industrial Center," the author writes, "The increased hostility towards Japan expressed in the West in general and the US in particular reinforces the economic shift towards Asia." Abegglen notes that the US is barely fighting for Asian business and he points out that many prominent US corporations have no presence at all in Asia. He states America is shortsighted, and instead of trying to play a role in shaping Asia, the Clinton trade team seems to be in a rut, overwhelmed by a compulsive attention to the monthly trade statistics from Japan.

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One of Germany's biggest property holders, Jurgen Schneider, had problems. One of his problems was that his companies had a total of roughly $5.2 billion in debts. And a weak property market (rents are down 30% in Germany) was bearing down on real estate values. So Schneider had his own solution. He disappeared. Nobody has seen or heard from him, and his creditors are in a state of panic. That's the story, so far.

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Labor Secretary Reich announced recently that the White House will opt for a boost in the minimum wage after Congress passes health reform. With almost every corporation in the US cutting back on its work force, an increase in the minimum wage is the last thing on earth that this country needs. A minimum wage boost will simply intensify the corporate urge to get rid of workers. Evidently, Reich and the Harvard economists still believe that they can legislate prosperity. Dream on and on and on.

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Chinese justice: Shen Taifu, 39, president of Great Wall Machinery and Electronics group, was involved in an illegal bond scheme. The Beijing Intermediate Court convicted him of embezzlement and bribery as well as issuing illegal bonds, and the ruling was confirmed by the Supreme Court of China. According to the Associated Press, "Shen Taifu was dispatched by the usual Chinese execution method -- a bullet in the back of the head."

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Margin may provide big profits during a bull market, but when the market turns against you and you are margined, the losses can be huge. This is what many (perhaps most) of the hedge funds found out during the first quarter of '94 (some of the biggest losses were taken when the Japanese yen surged 6% overnight while many of the hedgers were short the yen). George Soros' Quantum fund took a $1 billion dollar pasting over the yen. Other major losses were taken by Steinhardt Management ($600 million). Askin Capital Group, with $600 million under management, filed for bankruptcy. Even Proctor and Gamble got into the game, losing $157 million when they placed bets on the wrong side of the market. Rumor has it that Goldman Sachs took a half billion dollar hit during the first quarter. GE is taking a $210 million charge against earnings, due to costly trading in its Kidder Peabody division. Giant Cargill lost $100 million in their Minnetonka Fund. Incidentally, hedge funds hold about $75 billion in assets, a mere pittance compared with the $2 trillion in mutual funds.

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A week ago I received a phone call from Albert Sindlinger (we exchange services). Grandpa Sindlinger is 87, and he's been watching markets before most of us were born (he's been running his famous surveys for the past 40 years). I can tell you this -- Mr. S. is not pleased with what he sees. Here's a bit from a recent Sindlinger interview with Susan Antilla of the *NY Times*. "Sindlinger: 'I figure 30 million people have gotten into the market -- bought stocks recently, taking money out of the bank they shouldn't have taken. And they're going to lose their principal. These are people with $10,000 to $100,000 in assets who used to keep their money in time deposits. But over the last two years, $608 billion has come out of insured time deposits. These people were desperate because their life styles were affected by lower rates. They are mostly in their 60's and 70's, and their life styles were built on the assumption that they would always get an 8% return on their investments. When they found themselves getting 3% they were driven into equities out of desperation. They've committed suicide . . . I don't think the public has yet caught on. They think this is the 10% correction everybody expected. The poor fools believe it because their broker told them so.'" Asked how low he expected the Dow to go, Mr. S. answered, "2,000 in the next two to three years."

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What have fifty years of liberalism with socialist overtones given us? According to the April 12 *NY Times*, a report released last week by the Carnegie Corp. of NY, *"written by a panel of eminent politicians, doctors, educators and business executives, paints a bleak picture of disintegrating families, persistent poverty, high levels of child abuse, inadequate health care, and child care of such poor quality that it threatens youngsters' intellectual and emotional development."*

The study found that the years through three are "critical in the development of the human brain." The study added that in 1960 5% of children were born to unmarried mothers as against 28% in 1990. In 1960 7% of children under three lived with one parent; in 1990 it was 27%. In 1960 17% of mothers returned to work within one year of a child's birth; in 1990 it was a whopping 53%.

In the meantime, the Clinton Administration reports that Medicare funds will run out in seven years, and the fund that pays for Social Security disability insurance could run out of money next year unless Congress changes the existing law. Rostenkowski jumped to suggest changes, changes that would render Social Security worth even less (and more expensive) than before.

Russell comment: It's clear that government spending is far outdistancing incoming revenue. Therefore, the US is going to have to issue a lot of debt or "publish" a lot of money. As things are going now, there could be a liquidity crisis, as the intense need for more money impacts on the markets. In the end, this trend will lower the value of the dollar and move an increasing number of frightened investors into gold (gold, of course, can't be printed by an impoverished government).

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California may be running budget deficits of $3 billion or more, but economists claim that the state is awash with cash. Cash from where? It's cash from drugs, foreign funds and California's massive underground economy. The word is that 70% of the drugs entering the US come through the Southwest, and the West Coast has a large money-laundering system.

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Marvin Davis (he was a class below me at Horace Mann School for Boys in NY) sold the Pebble Beach golf resort to a Japanese tycoon (at a huge price) in 1990. The Japanese gentleman sold it two years later in 1992 for a reputed loss of $340 million. The Japanese Sazale Group bought the very fancy Hotel Bel Air in West LA at a crazy price of $110 million or $1.2 million per room. The 92-room hotel is now up for sale. What will it go for? Rumor has it that Geffen offered $50 million for it.

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Good News? Ed Hyman of *ISI* reports that S&P Dividends (seasonally adjusted annual rate) rose to a record high in the first quarter. But there's irony here. *Market Logic* of Ft. Lauderdale runs an index which they call their "Good News, Bad News Index." They note that historically the market does best when dividends are being reduced and worst when dividends are being raised (rationale: by the time corporations are reducing their dividends the stock market has already discounted most of the recession and is presumably ready to turn up).

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The Chunnel (Channel-tunnel) is about to open -- it will connect Britain and France, and for $420 you and your car can buy a round trip -- under the English Channel from England to France and back or the reverse. The 31-mile underwater rail link will, by 1996, transport an annual 8 million passengers and 4.5 million bus passengers. It's the largest privately financed infrastructure in history. It took 70,000 man years in Britain alone to build the structure. The owner is Eurotunnel, a private company. It is actually a complex of three parallel passageways, dipping as far as 148 feet below the seabed of the English Channel. On the French

side it will surface near Calais, on the English side it will surface at the base of Castle Hill, five miles inland from the cliffs of Dover.

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The "Information Superhighway," what is it? It's an unprecedented electronic communications network that eventually will connect everyone to everything from movies-on-demand to books to news to medical information to home shopping to E-mail to TV-on-demand, to well, you name it. The technical guts of it is the fiber-optic cable. The cable is made of glass strands so transparent that pulsating light beams travel for miles without being amplified. The strands are thinner than a human hair, and a single strand of this glass fiber can support (get this) 250,000 more information units than a comparable copper wire. Russell comment: The more I learn about Internet and E-mail, the more I wonder whether the US Post Office system can or will survive in anything resembling its present form. The fact is that the Post Office is a dinosaur employing 700,000 people. The cost of mailing a letter keeps climbing and the delivery time seems to get worse and worse. Personally, I believe the only hope is to privatize the Post Office. But that involves politics and 700,000 negative votes.

Somehow, my thoughts have turned to the famous "Pony Express" of 1860. It was set up to deliver mail from St. Joseph, Missouri to Sacramento, California in ten days, a trip of 2,000 miles. For the route, 165 "relay stations" were set up, with each Pony Express rider to go between stations at full gallop. Five hundred horses and 80 riders were used continuously (West to East and East to West). Ads for the Pony Express called for "daring young men, preferably orphans." None of the men weighed over 135 pounds, and the average age was 19 (although Buffalo Bill Cody was only 15 when he joined). Pay was high -- $50 to $150 a month plus room and board (this when average pay in the US was $1 a day). The daring enterprise captured the imagination of the nation, but it was never profitable. When on October 4, 1861, an East-to-West telegraph line was put into action, communication changed from a matter of days to a matter of seconds, and the Pony Express was doomed. Russell comment: US Post Office, take note of history.

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This from the April 14 *WSJ: "Quietly and with little fanfare, jewels are surpassing fine art as the fastest-appreciating sector of the art market." The article goes on to say that "Sotheby's world-wide jewelry sales climbed 64% in 1933 to $221 million from $135 million in 1992. Christie's sales climbed 26%. Those gains set the stage for another round of million-dollar jewelry auctions that's taking place in NY this week."* Russell comment: I receive both the Sotheby and Christie jewelry auction catalogues, and it's been apparent to me that jewelry prices have been climbing. I believe that top-grade jewelry (particularly good gems) have become a proxy for money. Wealthy people know that gems (diamonds, rubies, sapphires, emeralds) are another form of eternal money much as gold is. Gems are portable, they do not deteriorate, and they can be handed down from one generation to the next. Furthermore, there is always a market for top-quality gems, and their prices tend to keep up with inflation. P.S. Don't confuse high-quality gems with the junk sold to unwitting buyers by the nationwide jewelry chains.

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TAXES: How do people who live in NYC survive, given their sky-high taxes? Example: according to *New York* magazine, if you are single and self-employed and live in NYC, and you make $150,000 a year you pay (forgetting federal taxes) $21,932 in total NY State and City taxes vs. a comparable $6,941 in CT, $4,425 in PA, $4,310 in IL, and even $11,940 in CA.

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A few weeks ago a nationally circulated magazine, *Newsweek,* put a bear on its cover. Does this mean that the news it out, and that on a contrary opinion basis, this isn't really a bear market? It does not. If it's a bear market (and I believe it is) then I don't care who puts what on the cover, a *Newsweek* cover doesn't change facts. As the bear market progresses, prepare yourself to see an increasing number of magazine covers featuring the bear or at least pessimistic feature stories. There are times when even mass circulation magazines get with the trend.

* *

The NFL and the players swung a deal. After four years as a player in the NFL you become a free agent. In return, all teams will have a salary cap (listed at roughly $34 million). The players accepted the deal. Now chaos reigns as three or four stars on each team reap the big salaries, and the rest of the guys fight for what remains under the cap. In the last 14 months, 19 of 28 teams have hired or fired starting quarterbacks. As for the poor fans, their favorite teams will be shuffled around and changed each year. The coaches hate the new plan, and so will the fans. And high-priced older NFL veterans will be forced either to take big cuts in salaries or look for other professions.

BILLIONAIRES: A recent *Forbes* magazine special issue provided a rundown on the "400 Richest People in America." Warren Buffett of Omaha (Berkshire Hathaway) led the list with a fortune worth $8.3 billion. He was closely followed by Bill Gates of Microsoft (only $6.1 billion). Buffett still lives in the same modest house he bought in 1957 for $31,000. He drives a 1983 Cadillac and he eats a lunch of McDonald s hamburgers and fries. Buffett runs his company with 11 (count 'em) employees. Buffet's wife lives in LA (he's still married to her), but he lives with his housekeeper.

Young Bill Gates is a different story. He was always a computer nerd, and he was also a college drop-out (at Harvard he evidently knew more than his professors). Gates is mainly concerned with his own company, and he even (recently) married one of his own employees. He loves fast cars (Porsches) and he's famous for getting collections of speeding tickets. Gates will be moving into a new multi-million dollar high-tech home that he's in the process of building. He dresses in T-shirts and sneakers, and his company, Microsoft, is built on a dreamlike spacious "campus."

Buffet is basically a conservative, value investor. Buffet sticks with established companies, companies that he understands and knows well -- Washington Post, GEICO, Gillette, Salomon. Gates, on the other hand, deals with the cutting edge of high-tech. He's completely immersed in Microsoft.

How do you make a billion dollars? Easy -- be an investment genius, or be a leader in an industry that is about to explode. Or easier still, just inherit the money as the Walton kids of Walmart did (they're now America's richest family). Actually, there's no set formula for making millions or billions. The Russell opinion: God gives you what you need, not what you want. And if you can't make a living at all, then that's a clear sign that you're doing something very wrong.

It's my opinion we're put here on earth to learn, and to advance ourselves. And if you are good enough to reach a high state of existence, then your duty is to teach others or to do something that will advance (help) mankind.

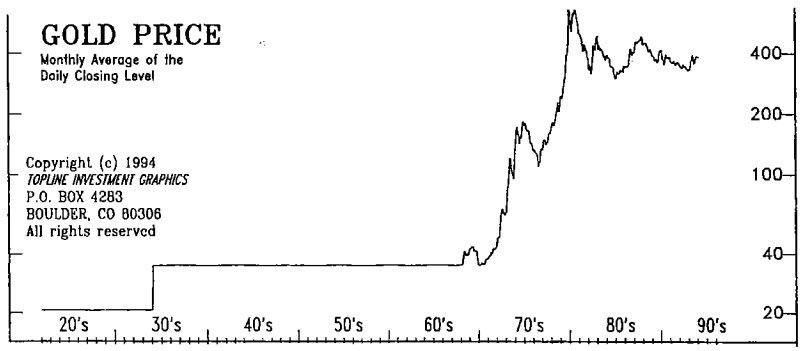
There are three states of existence. The lowest state is what you own. The next higher state is what you do. The highest state is what you are. Most of the great men of history are remembered either for what they did (Picasso, Bach, Freud, Napoleon, Einstein, etc.) or for what they were or what they stood for (Christ, Mohammed, Buddha, Moses, Peter).

The billionaires in the *Forbes* rundown are mostly known (if they're known at all) for what they own, although many have done a lot for business and even for their country. A few selected *Forbes*-ers are known for being fine people.

But history remembers the doers and the great souls: Renoir, Beethoven, Freud, Darwin, Pasteur, Shakespeare, Joan of Arc, DeGaulle, Caesar, Washington, Jefferson -- the people whose character and thoughts have changed the world.

I've always said, "If you want to be remembered in history, be a great painter or write a great novel. If all you've done is made a billion dollars, the odds are that you'll be forgotten a few years after you've departed from this earth." Ah yes, but having a billion is undoubtedly more fun than sitting in a rundown apartment in Greenwich Village writing a great novel. To each his own.

GOLD: First, let's look at the very big picture. This chart of 70 years of gold history offers an excellent long-term perspective (chart by John "Computer-Man" Carder). From the 20s through the early 70s the gold price was controlled by the government (ironically, the US government still officially values gold at the old price of $42.22). Gold broke free of US government controls during the early 70s, and next we see the massive "adjustment" or "catch-up" bull market, a bull market that extended through the 70s and ended with the upside explosion into 1980 (gold topped out at 850).

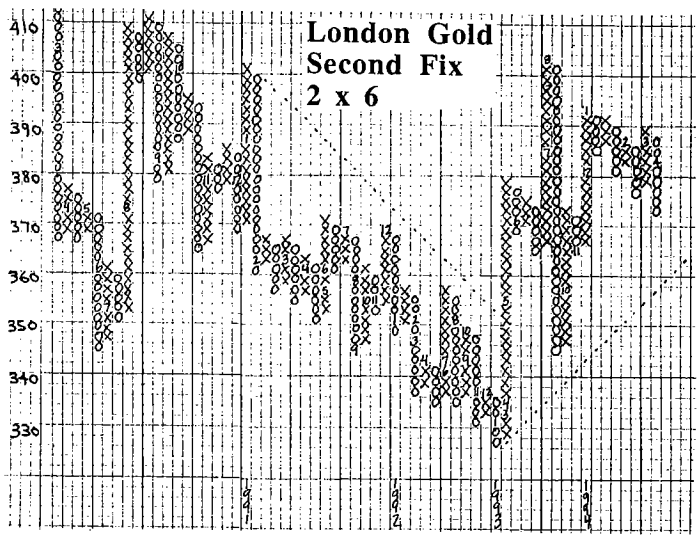


Gold then broke down to a bear market low of 284 in 1985. Since then gold's been in what I term a creeping, deceptive, very difficult first phase of a new bull market.

Gold was never a real political problem during the early years. However, today's investors are far more sophisticated and informed than were the investors of the '30s and '40s and '50s. Today, people are very aware of government deficits, the growing national debt, the pork and perks, and the persistent decline in the purchasing power of the dollar.

As the purchasing power of the dollar erodes, it takes more dollars to buy gold. In other words, the dollar price of gold goes up. When that happens, it tells consumers (voters) that something is wrong. And that scares the hell out of Washington, (of course, Washington would like to run deficits forever without anyone noticing the depreciating dollar). So we have Washington's dream scenario -- it's being able to spend all the money it wants -- while the price of gold holds steady or preferably goes down.

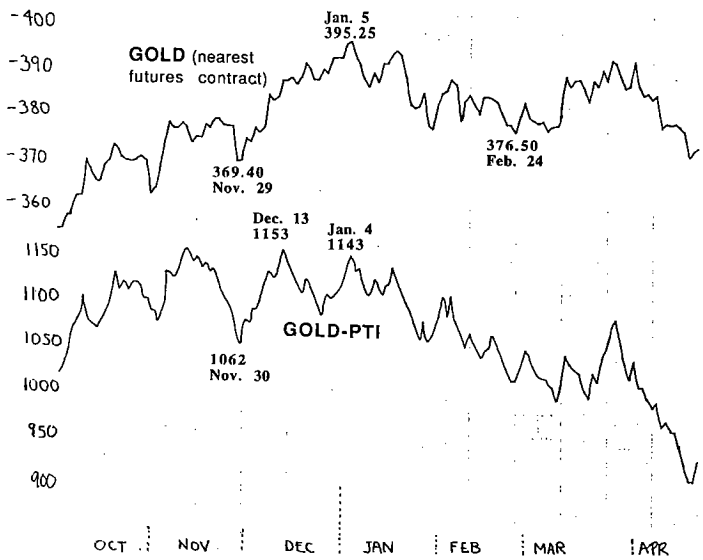
There you have it -- the gold background. But regardless of our opinions or pet peeves or political philosophy, we have to deal with reality -- better known as the dollar price of gold. For this, the point & figure chart of gold is invaluable since it provides us with specific levels with which to judge the gold action.



The chart shows gold bottoming at the 328 box in January 1993. From there gold rallied to an August high of 404. All the action since has been held between the September 1993 low of 346 and the January 1994 high of 394.

As you can see on the chart, gold has traced out a series of three lower lows, but so far all the downside action has taken place above the bullish trendline (the rising or bullish trendline is drawn from the 1993 low). As this is written, the bullish trendline comes in at 358. Therefore, any and all fluctuations ABOVE 358 will occur within the context of a bullish consolidation. However, if gold breaks below 358 there will be only two support levels, the 346 of September '93 and the extreme low of 328.

The chart of gold and my Gold-PTI does not offer a happy picture. Gold (nearest futures contract) confirmed the sinking G-PTI by breaking below its Feb. 24 low of 376.50. The next downside level for the metal is the 369.40 level set back on Nov. 29. Let's hope that one holds.



As early as Jan. 4 the G-PTI foresaw trouble. On Jan. 5 gold hit a new high but the G-PTI refused to confirm. From that point on, it was downhill for both gold and the gold shares.

Whether to hold, cut back or cut out is a personal choice here. Personally, I've cut back. "He who fights and runs away, lives to fight another day."

LATE NOTES: (Apologies, get out your magnifying glasses): The questions and arguments are coming in: "Russell, what would you have to see in order to turn bullish?" "What it the Dow rallies to near the highs?" "How about cost averaging, buying more shares at lower prices?" "I don't see any recession on the horizon, so, Russell, how can we have a bear market?" "Won't the Fed lower the rates if need be and arrest any major decline?"

My answer is that the bull market's top is in. The bear's claws are already deep in the throat of the bull. The bull may (probably will) resist mightily, but in the end the bear will have his way. As the bull slowly weakens we can expect the bear to grow steadily stronger.

The Dow is still selling at a super-high 35 times its dividends (a ratio characteristic of a bull market top). I expect that the bear market journey will take the market down to an ultimate 10 to 15 times Dow dividends (not earnings, dividends). The mystery, the only mystery, is HOW the market will go down, not whether it will go down. One thing is certain, it's going to take many disappointments and much bad news to get the market down to an ultimate 10 to 15 times Dow dividends.

Joe Granville counts 834 NYSE stocks within one point of new 52-week lows . . . Jim Grant notes that on a four-week moving average, "The Fed's portfolio is growing by a robust 12.4%." He adds, " Watch what they do, not what they say." Russell comment: What they're doing is buying bonds in huge amounts, which is inflationary.

NEXT MAILING: May 11, 1994